

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6532

BILL NUMBER: SB 141

NOTE PREPARED: Dec 19, 2011

BILL AMENDED:

SUBJECT: Income Tax Credit for College 529 Plan.

FIRST AUTHOR: Sen. Kenley

FIRST SPONSOR:

BILL STATUS: As Introduced

**FUNDS AFFECTED: X GENERAL
DEDICATED
FEDERAL**

IMPACT: State

Summary of Legislation: The bill provides that a contribution to a College Choice 529 Education Savings Plan does not qualify for the 20% income tax credit if the contribution occurs after the beneficiary becomes 32 years of age, for accounts opened after December 31, 2011. It reduces the amount of contributions that qualify for the tax credit in a year by the amount of any qualified withdrawals that occur in the same year. (Current law provides for the recapture of any credit granted when a nonqualified withdrawal is made.)

Effective Date: January 1, 2012 (retroactive).

Explanation of State Expenditures: *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes to the tax credit. The DOR's current level of resources should be sufficient to implement these changes.

Explanation of State Revenues: *Summary:* The bill makes the following two changes to the individual income tax credit for contributions to a College Choice 529 Education Savings Account. These changes would begin in tax year 2012. Any revenue gain due to reduced tax credit claims would begin in FY 2013 and would affect revenue to the state General Fund.

(1) The bill changes the tax credit from 20% of the total contributions made by a taxpayer to a College Choice 529 savings account during the taxable year to 20% of the difference between the total contributions made by the taxpayer to an account and the qualified withdrawals from the account during the taxable year. This change could potentially have a significant impact on credits claimed depending on the number of contributions each year that are made to accounts where the beneficiary is in college and qualified

withdrawals are being made. (Data relating to this group of accounts is currently being tabulated by the Indiana Education Savings Authority. The fiscal note will be updated once this data is available.)

(2) The bill specifies that a creditable contribution to a College Choice 529 savings account does not include money contributed to an account after the account beneficiary becomes 32 years old, for an account opened after December 31, 2011. This change could potentially eliminate contributions to new accounts in future years which, in turn, would reduce credit claims. However, the impact on contributions and credits is unknown.

Background Information: Under current statute, an individual taxpayer can claim a tax credit against his or her individual adjusted gross income (AGI) tax liability equal to 20% of the first \$5,000 in contributions the taxpayer makes during the tax year to an Indiana College Choice 529 education savings account. The tax credit began in tax year 2007. Credit amount claimed by year through 2009 (the most recent year available) is reported in the table below.

Year	Filers Claiming Credit	Credits Claimed
2007	33,853	\$26,024,050
2008	40,677	\$28,634,616
2009	48,229	\$33,318,076

Explanation of Local Expenditures:

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: OFMA Income Tax databases, 2007-2009.

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